

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BAC3654 – PROFESSIONAL ETHICS

(All sections / Groups)

14 OCTOBER 2017

2.30p.m – 5.30p.m

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 5 pages with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

The International Corruption Agency announced on Thursday that they were seeking the arrest of William Perry, the power supply tycoon who was once the country's richest man, in an expansion of the vast corruption investigation that has trap dozens of politicians and business leaders. Sérgio Bermudes, a lawyer for Mr. William Perry, said his client was out of the country, either in the United States or the Cayman Islands, to seek access to blocked bank accounts. The arrest warrant could signal a new phase in the downfall of William Perry, 60, whose global prominence had long been associated with Sheffield's booming economy. His personal wealth reached \$34.5 billion as 2016. "William Perry was a symbol of that moment of nationalist exaltation when the stars seemed to be aligning for Sheffield," said Patrick Don, a professor of ethics at Zamano University in the Sheffield city. "But it turns out he was involved in the same old rotten schemes involving large corporations and the Sheffield state."

Recently, Sarra Lorrence, a business journalist based in London, reported that that there is incorrect figure in Sheffield Power's remuneration report. The major misreported amount of the Chief Executive Officer (CEO), William Perry's remuneration was clearly debatable. Sarra claimed on the bribes that he received from the large support contracts. Being a close personal friend for many politicians, William maintains his strong support on government policies. Sarra has been investigating the corruption problems at Sheffield Power since last year and has widely reported the problems internationally.

Eight years ago, the board appointed William Perry as the chief executive officer (CEO) of Sheffield Power. Being the most senior director, William receives a substantial fixed salary. In addition, he also receives attractive bonus incentive from private sector companies. William awarded these companies with long support contracts and as a return, he receives quarter bonus that directly transferred to his personal account. William believes that this is the best way to plan for his retirement in next 5 years. Sheffield Power had been owned by the government since last 25 years ago. It was listed in Sheffield Stock Exchange last year and the shares have actively traded throughout this year. Being the monopoly of power supply in Sheffield, Sheffield Power enjoys a free competition market. Therefore, it is expected to report fruitful profits every year. In addition to the domestic market, it also exports power to neighbouring countries by latest development of pipeline. To some countries the liquefying gas was exported in very large container vessels.

Sheffield is a developing nation, based in Europe. This country is always the lowest rank of the International Transparency Index. This ranking considers Sheffield to have serious problems with corruption. It is common for public sectors employees to request, and receive, corrupt payments from members of society. Moreover, Sheffield has poor compliance of corporate governance code among its public listed companies. Due to poor compliance of code of corporate governance in Sheffield, the enforcement of listing rule on the separation of the roles of CEO and chairman was ignored by Sheffield Power. William Perry is also the executive chairman of the company. When he occupies both roles, he may prevent any close monitoring on his activities. In public listed companies, there is a

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network of interconnections between company directors and politicians. This is mainly due to concealed figure which regulation prevents the media or public protest from voicing any criticism of politicians or the government. Government strictly controlled all type of media through major shareholdings of the giant media company. There is no published criticism of the government as police department often takes drastic action to detain such people from making public criticisms.

Beside the recent pressure from Sarra, the latest Global Footprint International Conference on urgency of environmental reporting is considering requested all power supply companies to produce annual environmental report. This report focuses on the company's environmental footprint due to recent high profile cases, in which the poor environmental performance of power supply companies has been questioned. Global Footprint prominent believes that power supply companies will be helping their own reputations through the high quality annual environmental report.

Environmental reporting includes figures on all aspects of a company's environmental impacts and also the changes from year-to-year so that stakeholders can monitor how each power supply company is performing over the longer term. However, Sheffield Power ignores this initiative as the board believes that people in Sheffield do not care much about the environment aspect. The company's internal audit function has offered to advice on establishing internal controls, in order to assure the company that the information fed into the environmental report has integrity and is accurate.

- a. Based on the above case, explain **4 (four)** benefits if the roles of chief executive and chairman were split and a non-executive chairman was appointed.
(12 marks)
- b. Explain **4 (four)** importance of effective internal controls in underpinning the proposed compulsory environmental reporting requirement.
(8 marks)
- c. Discuss **2 (two)** barriers to improve the corrupt practices in Sheffield Power.
(5 marks)

[TOTAL 25 MARKS]

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QUESTION 2

In 2002, Congress tasked the audit committee with overseeing the retention of the company's independent auditor and pre-approving all non-audit services provided by that independent auditor to safeguard against impairment of auditor independence. Accordingly, the SEC views the independence of the auditor as a shared responsibility between the audit committee and the auditor. In June of this year, the SEC put teeth to that view and charged the trustee of an investment fund and the fund's administrator with causing violations of the auditor independence rules.

Given the SEC's enforcement agenda against gatekeepers and its view of the independence obligations, directors and trustees are well-advised to refamiliarize themselves with the independence rules generally and their role in monitoring independence specifically. The auditor must be independent throughout the audit engagement as well as the period covered by the financial statements to be audited. When considering the independence of a potential or returning auditor, the audit committee should take a broad view to capture any relationships or services that could be viewed as impairing independence.

The Sarbanes-Oxley Act of 2002 defined certain prohibited relationships and services. Audit committee members should be familiar with the enumerated prohibited arrangements but must also be aware that these prohibitions are not all-inclusive. For instance, even though tax services do not generally raise independence issues, the Public Company Accounting Oversight Board (PCAOB) warned that a conflict of interest between a company and its auditor may arise if the company faces legal liability or sanctions based on a tax strategy developed by its auditor. The audit committee must therefore consider the impact on independence of all non-audit services or relationships whether or not they are expressly banned using the above-listed factors as a guide.

- a. Explain 4 (**four**) situations how auditor's independence would be deemed impaired and how do audit committees should exercise their best practice.
(10 marks)
- b. Discuss 3 (**three**) indicators on audit committees' independence.
(9 marks)
- c. Discuss 3 (**three**) reasons that financial experience may enhance the effectiveness of the audit committee supervision.
(6 marks)

[TOTAL 25 MARKS]

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QUESTION 3

“MIDDLEBROUH – 45,000 OSS’s workers paying price for decades of exposure to toxic chemicals. OSS was listed on Toronto Exchange employs 45% of the workforce and in Middlebrouh. OSS also supports a number of local causes including a children’s nursery, an amateur football club and a number of adult education classes. A comprehensive study of chemical exposures at OSS’s Middlebrouh plant shows workers routinely handled more than 3,000 highly toxic substances in decades past. Working conditions at OSS’s factory between 2000 and 2016 played a significant role in an “epidemic” of work-related illnesses among employees and retirees, according to a comprehensive study of chemical exposures at the plant”

Recently, an independent academic research discovered that OSS’s product was very harmful to human health due to wide range of fatal respiratory diseases. The result of the study was publicly reported that caused a great deal effect on OSS’s reputation. After two months, Janna Lee, the accountant of the company, informed the board that the company was faced with a very difficult situation. The company could not survive for another six months due to significant increase in compensation payments. 840 reports from doctors had suspected that the highly toxic substances used to produce the product cause an above-average incidence of miscarriages, birth defects and respiratory ailments among production workers.

As a qualified accountant, Janna Lee was trusted by shareholders because of her performance in the role of finance director over several years. Because she would be believed by shareholders, Andrew Carter, Chief Executive Officer (CEO) offered a substantial increase in her share options if she would unreported the nearly 2 millions of compensation cost. Janna Lee accepted the offer and reported to shareholders as he had suggested. In her report, she also said that the company was aware of the result of the academic research but argued that the findings were not conclusive and also not considered a serious risk to company’s future success.

- a. Explain 4 (**four**) potential social implications of the independent academic research’s discovery about the health risks among the production workers of OSS on affected stakeholders.
(10 marks)
- b. Clearly discuss 3 (**three**) fundamental principles of professionalism that Janna Lee has failed to meet.
(9 marks)
- c. Briefly explain the issue of unreported of compensation cost from the perspective of utilitarian, deontology and virtue ethics.
(6 marks)

[TOTAL 25 MARKS]

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QUESTION 4

- a. Efficient corporate governance is a decisive factor in winning greater trust with shareholders and investors, consolidating the company's position on global financial markets and improving its competitive value.

Assess **5 (five)** ways how corruption could undermine confidence and trust in a company, with reference to the principles of corporate governance.

(10 marks)

- b. Describe the agency relationships and agency costs. Explain **2 (two)** ways how clear accountability could increase trust between principal and agent thereby reducing agency costs.

(9 marks)

- c. Briefly explain **3 (three)** types of ethical threats in the MIA By-Laws.

(6 marks)

[TOTAL 25 MARKS]

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